

Budget Tidbits... just the facts

Senate Republican Caucus

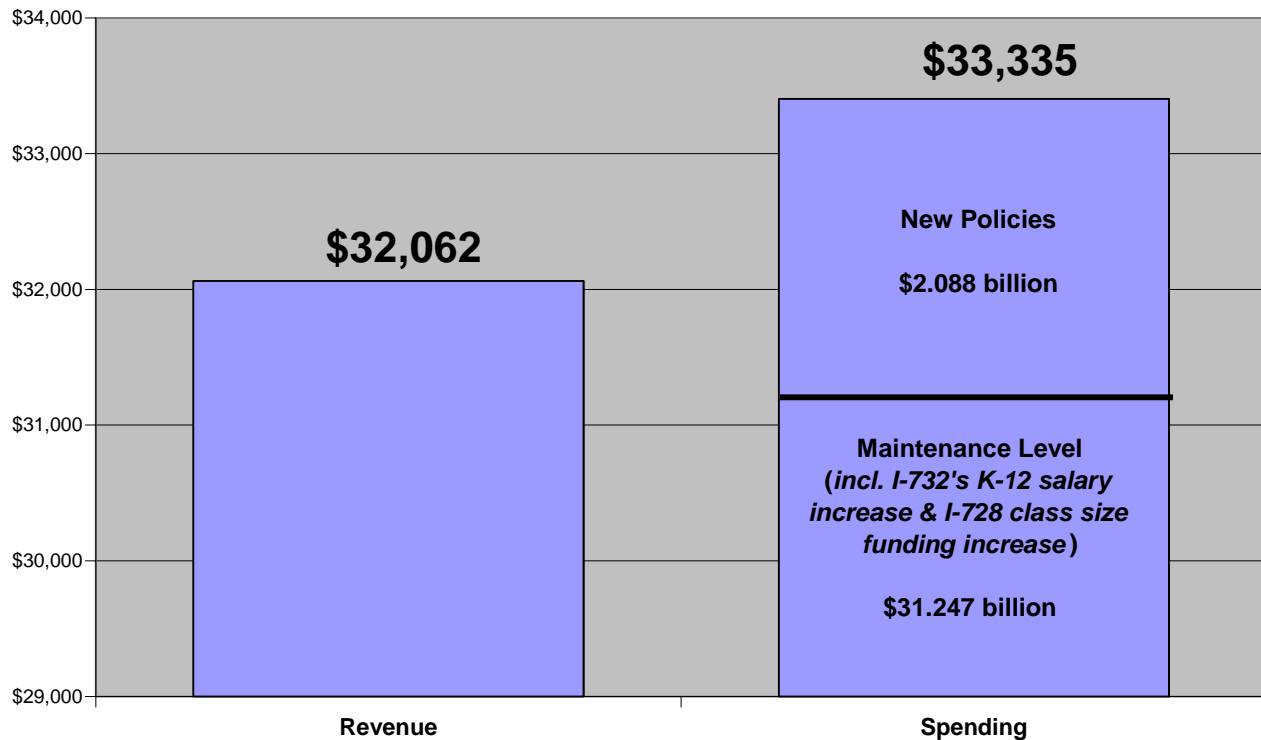
Budget Brief #9: (3/28/07) Is This Responsible Budgeting?

A look at the Senate Democrats' budget proposal to increase state spending by \$4.35 billion, a nearly 15 percent increase over the current budget – along with a recommendation on needed leadership from the Governor.

A. Spending Outpaces Revenue by \$1.3 Billion, Due Entirely to New Policy Adds

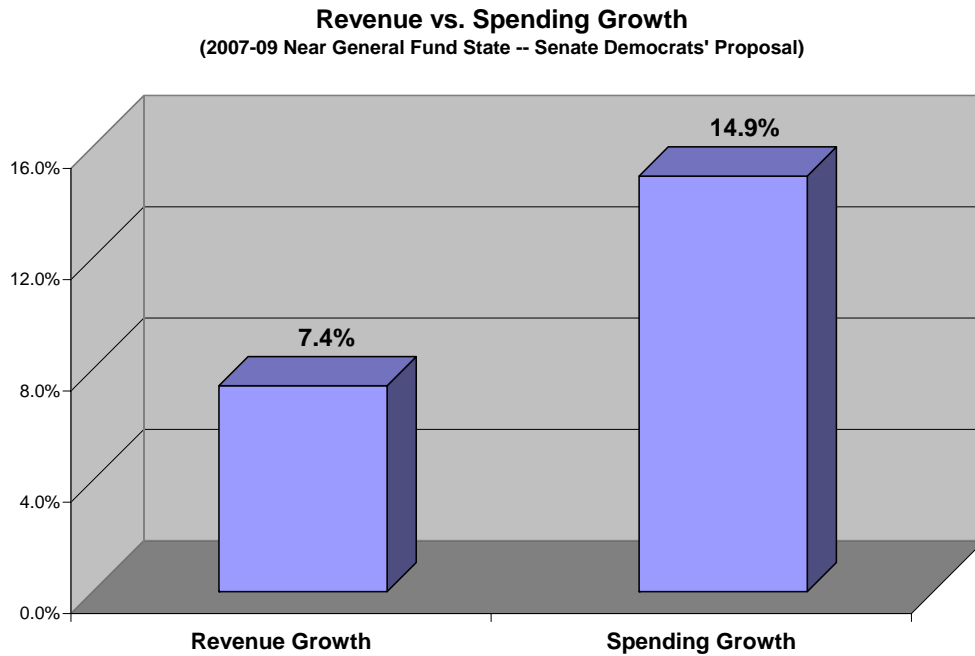
Senate Democrats' Proposal -- Near General Fund State

(Dollars in Millions)



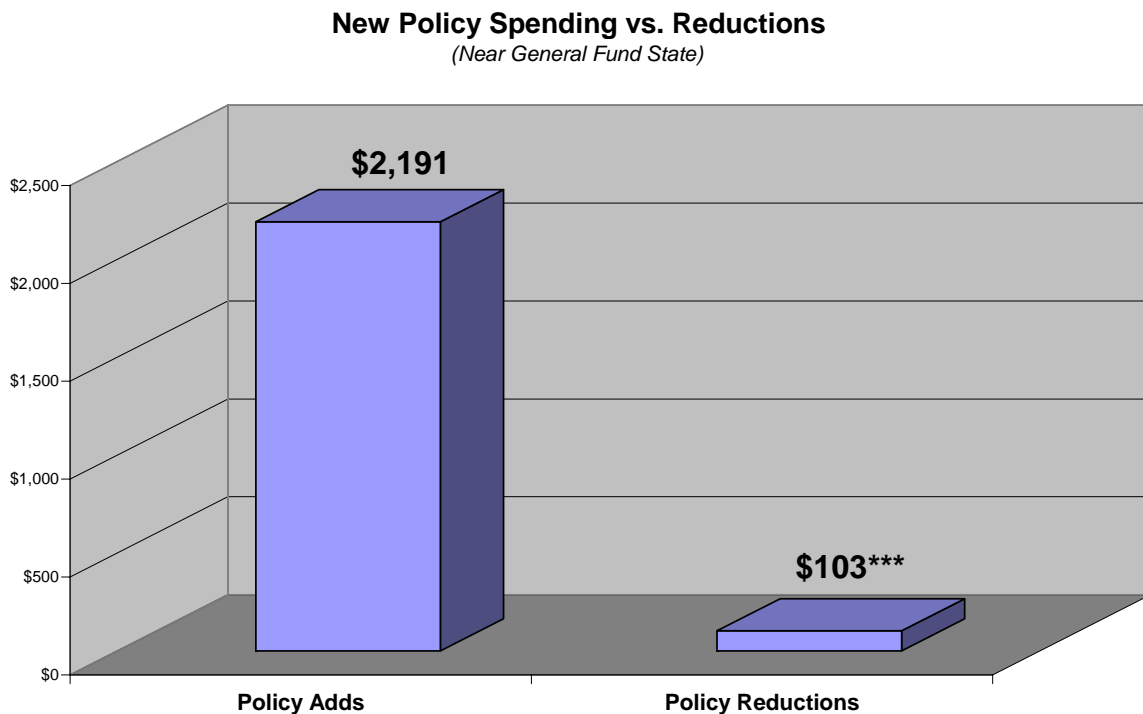
*Source: Spending: LEAP (Maintenance level per W&M); Revenue: ERFC, March 2007 Forecast, plus ELTA + EJA forecast per leg. staff

B. Spending Growth is Double Revenue Growth



* Source: Revenue -- ERFC, March Forecast; Spending: LEAP, calculated from 2006 supp. spending, not appropriated level

C. Not Much Evidence of Critically Examining Existing Spending

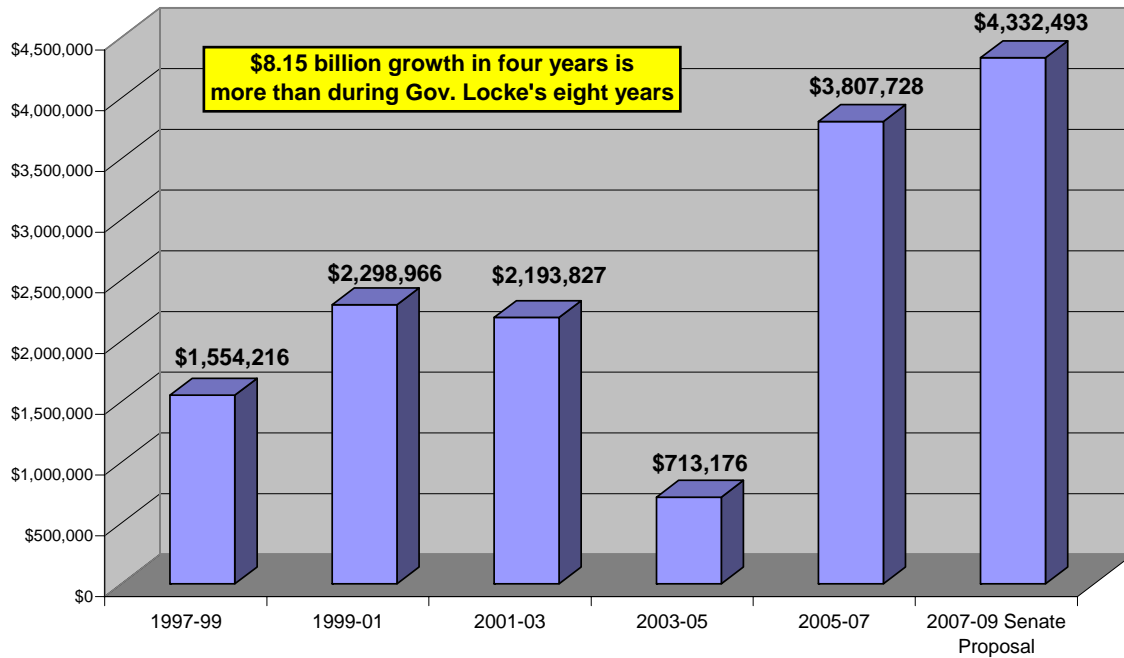


*** \$95 million of savings from "revising gain-sharing", yet unclear what policy is or whether legislation will be proposed

Source: Ways & Means

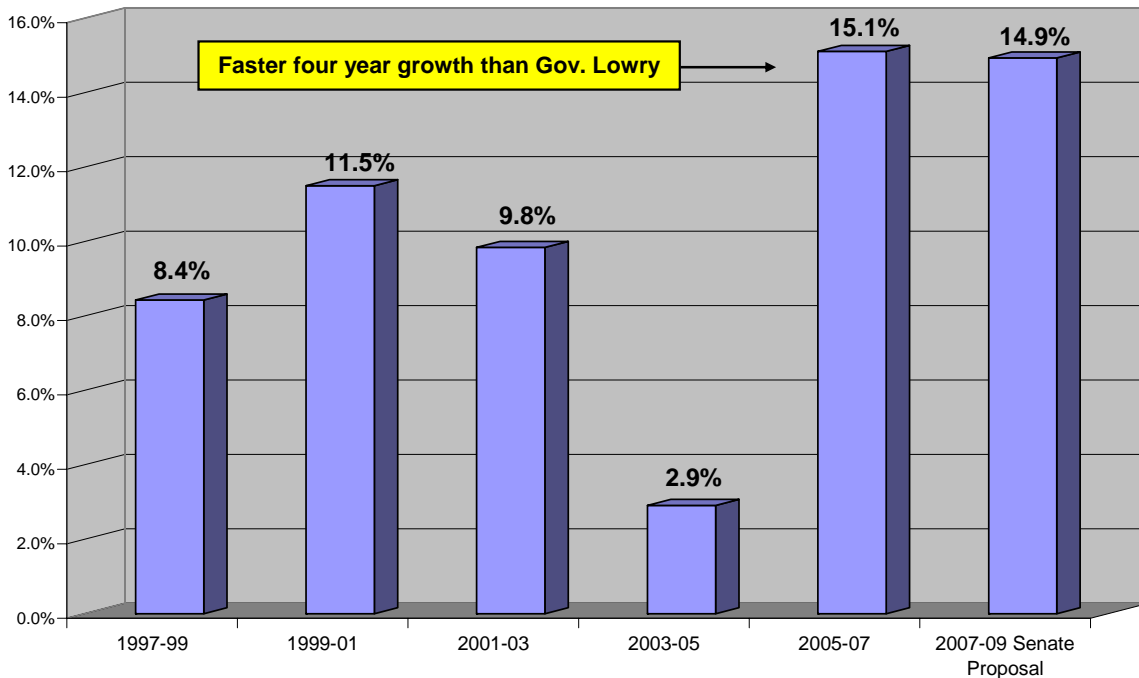
D. Historically Fast Growth in Dollars and Percentage

Near General Fund State -- Dollar Growth



* Source: LEAP (2003-05 based on 2004 supplemental; 2005-07 based on actual spending, not appropriations)

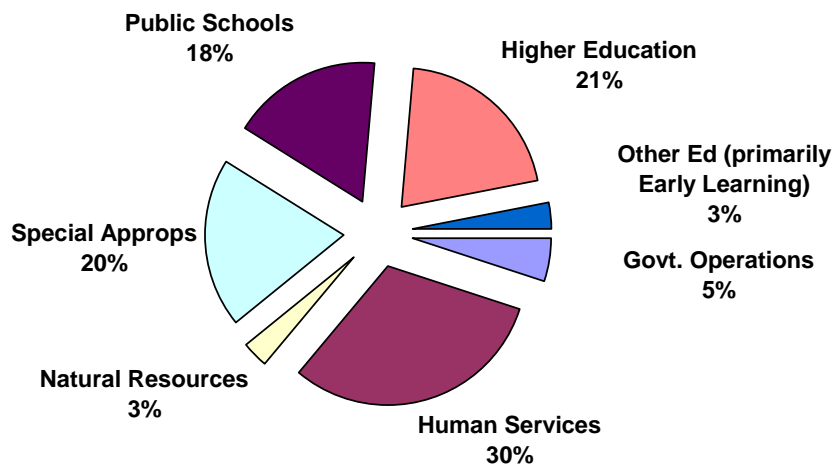
Near General Fund State Expenditures -- Percentage Growth



* Source: LEAP (2003-05 based on 2004 supplemental; 2005-07 based on actual spending, not appropriations)

E. Only a Fraction of New Policy Spending is in K-12

New Policy Spending Breakdown
Senate Democrats' 2007-09 Proposal -- Near General Fund State



New Policy Spending: \$2.088 Billion

* Source: LEAP

F. Legally Questionable Spending Limit Manipulations

The 2007 supplemental is inflated by nearly \$480 million in transfers to other accounts – which are NOT spent in the 2005-07 biennium – and are done solely to inflate the permissible spending limit in 2007-09.

This is notable for two reasons. First, as a matter of policy, it is interesting that even under the more generous personal income growth spending limit Democrats adopted in 2005 (vs. I-601's inflation + population limit) that budget writers resort to artificial machinations to accommodate desired spending, rather than live within the constraints of the law they adopted and advocated for just two years ago.

Second, as a matter of law, the ability to engage in such artificial manipulation in the back of the budget, rather than changing the statute, is legally questionable. RCW 43.135.025 provides that the spending limit shall be based on the prior year's state *expenditures*. Yet Democrat budget writers claim their \$480 million of transfers into other accounts in fiscal year 2007 – which are NOT spent – constitute state expenditures. It is from this higher level that they calculate permissible spending for the 2007-09 biennium.

Yet it is HIGHLY QUESTIONABLE whether a court would view transfers to another account that go unspent as constituting "state expenditures." Common sense would certainly indicate they are not. *If challenged, a court could find the Senate budget (and the House and Governor's versions as well) violates the state spending limit, thus requiring a substantial re-working and downsizing of the budget.*

G. Billion Dollar Plus Deficit Forecast in Next Budget Cycle

No six-year outlook has been done on the Senate budget. But given the nearly identical overall spending levels – \$33.335 billion Senate vs. \$33.355 billion Governor – future deficits are likely no lower than what was forecast with the Governor's budget: ***namely, a \$1.2 billion deficit in 2009-11 and \$2.8 billion***

in 2011-13. Such a deficit may in fact be understated as the Senate has \$200 million more in new policy spending than the Governor which is financed via a lower caseload forecast that may prove to be a temporary blip.

H. What About the Need to Get Off the Budget Roller Coaster?

Gov. Gregoire has repeatedly stated her supposed commitment to getting the state off the boom-bust budget roller coaster:

- “We spend when we have a surplus and we struggle to make painful cuts when the economy slumps,” the governor said. “It is time we even out the road.” (*Seattle Times* - 1/11/06)
- “I know the economy sometimes feels like a roller coaster,” Gov. Gregoire said. “We have a responsibility to help smooth out the ride.” (12/8/05 press release)
- “We can avoid tax increases to support existing state programs if we spend wisely and save,” the governor said. “That is the stability that I want in state government[.]” (12/8/05 press release)
- “The economy is cyclical. It is never a flat line, and I’m interested in positioning this state to weather a down cycle as much as we enjoy an up cycle.” (11/4/05 press release)
- “I intend to be careful to protect education and other vital state programs by looking not just at the present, but at what we will need tomorrow to sustain these programs.” (11/4/05 press release)

While a constitutional rainy day fund is a step in the right direction to getting the state off the boom-bust budget roller coaster, that alone is not sufficient. What is needed is discipline, restraint and a commitment to budget within forecasted revenues, both in the short and long term. Each of the budgets presented fail woefully in these regards.

Simply put, leadership requires that problems foreseen should be avoided. **For her statements to be more than empty rhetoric, the Governor needs to take action to ensure the largest surplus in state history is not squandered and taxpayers and legislators are not confronted with a billion dollar plus deficit in the next budget cycle.**

At a minimum, the Governor should demand the final legislative budget live within her policy enhancements, and the \$365 million in good news the legislature received in March – via forecasts of lower caseloads and higher revenues – should be set aside in the constitutional rainy day fund. Such an approach, while still spending more than ultimately ideal, would represent a realistic budget goal: after all, prior to two weeks ago, legislative budget writers did not have such money available. **The result? Setting aside such funds would leave almost \$1 billion in reserve and cut future projected deficits in nearly half.**

Bottom Line

Is the Senate Democrat budget a fiscally responsible proposal that Washington citizens and taxpayers can afford? And, if not, should the Governor call for further restraint, demanding the \$365 million in good news legislators received mid-session be set aside in reserve?